

Consignments

I. Introduction

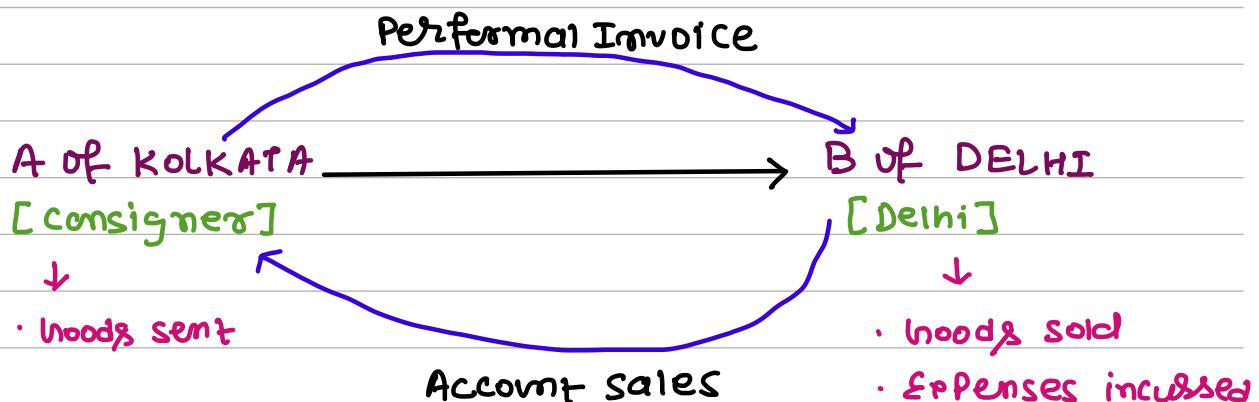
A. Meaning

Consignment is a kind of business expansion without actually opening a branch in a new potential area. Under this business owner (**Consignor**) sends goods to the agent (**Consignee**) to be sold by consignee on commission basis.

- Ownership of the goods remains with the Consigner only until and unless goods sold by Consignee and ownership transfers to buyers directly on selling of goods by Consignee. Hence, the relationship of Consigner and Consignee is that of a **Principal and agent**.

B. Procedure

- Consigner sends goods to Consignee along with along with a document called **Perfomma Invoice** containing details of goods sent, Price at which it can be sold, by incurring expenses (Freight, insurance, etc.)
- Consignee receives goods by paying unloading charges and take the goods to the godown.
- Now Consignee sells goods and sends all details of various expenses incurred (Unloading charges, transport charges, godown rent, Electricity, selling Expenses, etc.) and goods sold, in a document called **Account Sales**.



2. Basic Terms used in Consignment

i) Perfomma Invoice

- A document sends by Consigner to the Consignee Containing the details of goods sent, minimum selling price, etc.

ii) Account Sales

- A document sends by Consignee to the consigner containing the details of goods sold, expenses incurred, unsold goods with Consigner, remittance made, etc.

iii) Expenses in Consignment

Expenses



Non-recurring Expenses

- Incurred only once on a particular goods
- e.g. All expenses of Consigner
- Consignee's expenses till the goods reaches to the godown.



Used in calculation of Abnormal loss and unsold stock.

Recurring Expenses

- That being incurred periodically on some goods again and again till goods sold by the consignee.

All expenses of Consignee after goods reaches the godown. e.g. godown rent, lighting, selling expenses, etc.



Not to be used in calculation of Abnormal loss and unsold stock.

iv) Losses in Consignment

Loss

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Normal loss



- loss which is inherited and cannot be avoided. e.g. loss during loading and unloading of Tomatoes. It cannot be insured

- only units to be deducted and not amount as it can be charged to customers, hence no separate accounting treatment required.

- Any accidental loss to the consigned goods or loss due to carelessness which can be avoided. e.g. loss by fire, theft, etc. It can be insured.

- units and amount both to be deducted as cannot be recovered from customers, hence separate accounting treatment required.

v) Commission Charged by Consignee

Commission

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Normal
Commission



- General Commission to be provided on sale of goods by consignee

Del-Credere
Commission



- Extra Commission to be provided to transfer the risk of bad debt, i.e. if del-credere commission is being given, the loss of bad debt price [if agreed] shall be borne by consignee.

Overriding / Special
Commission

- Calculated on credit sales if details available, otherwise on total sales assuming there is only credit sales

vi) Calculation of Abnormal Loss and Closing Stock

	<u>Units</u>	<u>Amount</u>
Goods sent	✓	-
Add:- Consigner's Expenses	—	—
Less:- Normal loss (if any)	(✓)	
: - Abnormal loss (only if happened before goods received by Consignee)	(✓)	(✓)
Add:- Non-recurring Expenses of Consignee	✓	✓
	—	—
Less:- Abnormal loss [loss after goods received by Consignee]	(✓)	(✓)
	—	—

Value of unsold stock

$$= \frac{\text{Total Cost}}{\text{Total units}} \times \text{Unsold units}$$

3. Recording of Transactions [Journal Entries]

A. In the books of Consigner

i) Goods sent on Consignment

Goods sent on Consignment A/c --- Dr.

Cost

To Trading A/c / Purchase A/c

Price

Consignment to.... A/c --- Dr

Cost Price

To Goods sent on Consignment A/c

OR
Invoice Price

ii) Expenses incurred on sending goods [Freight and Insurance]

Consignment to.... A/c -- Dr. ✓

To Cash/ Bank

✓

iii) Advance received from Consignee

Cash / Bank / Bill Receivable
To Consignee A/c

✓

✓

iv) Account Sales received from Consignee

a. Goods sold by Consignee

- with del-credere commission

Consignee A/c --- Dr.

To Consignment to... A/c

[Cash + Credit]
Sales

- without del-credere Commission

Consignee A/c -- Dr.

Consignment Debtors A/c - Dr.

To Consignment to... A/c

Cash Sales

Credit Sales

Total Sales

Note:- No entry for bad debt shall be passed in the books of Consigner if del-credere commission is provided.

b. Expenses incurred by Consignee (including Commission)

Consignment to... A/c .. Dr. ✓

To Consignee A/c

✓

c. Receiving remittance from Consignee

Cash / Bank A/c -- Dr.

To Consignee A/c

d. Unsold Stock with Consignee

Stock on Consignment A/c -- Dr. ✓

To Consignment to... A/c

✓

v) Normal loss

- NO Entry -

v) Abnormal loss

Abnormal loss (Insurance Claim) A/C. for Claim Admitted

Abnormal loss (Profit and loss) A/C -- Dr. Claim not Admitted
To Consignment A/C Total Loss

Note:- If goods are not insured then whole amount shall be transferred to P/L A/C.

vii) Removing bad item in goods

If goods are sent to consignee at Invoice Price then bad should be remove from following items -

a. Goods sent on Consignment

Goods sent on Consignment A/C -- Dr.	<u>Bad</u>
To Consignment to... A/C	<u>Part</u>

b. Unsold stock with Consignee

Consignment to A/C -- Dr.	<u>Bad</u>
To Closing Stock Reserve A/C	<u>Part</u>

viii) Profit or loss on Consignment

Profit on Consignment

Consignment to... A/C -- Dr
To Profit on Consignment

Loss on Consignment

Loss on Consignment A/C -- Dr
To Consignment to... A/C

B. In the books of Consignee

▷ Goods received on Consignment

- No Entry -

Note:- As Consignee hold these goods on behalf of Consigner, he is not required to pass entry for receiving goods. He may however record the details in a separate book.

iii) Advance made to Consigner

Consignor A/c -- -Dr.

To Cash/ Bank / Bills Payable A/c

iv) Expenses incurred on Consignment and Commission earned

Consignor A/c ---Dr. ✓

To Cash/ Bank A/c ✓

To Commission Received A/c ✓

v) Good sold

Cash / Bank

Cash sales

Consignment Debtors

Credit sales

To Consigner A/c ✓

Note:- Credit sales shall be recorded by Consignee only if del credere Commission is given to consignee, otherwise Consignee will not record credit sales.

If del credere Commission received then loss of bad debt shall be borne by consignee and he should adjust the same with commission income.

vi) Sending Remittance

Consignor A/c ---Dr.

To Bank / cash

vii) unsold stock

- NO Entry -

4. Ledger Accounts

In the books of Consigner

Consignment To Account

Dr.	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Goods sent on Consignment	✓		By Consignee - Sales	✓
	To Bank - Freight	-		By Abnormal loss - claim	✓
	- Carriage	-			
	- Insurance	✓			
				By Abnormal loss - P/L	✓
	To Consignee A/c - Clearing charges	✓			
	- Carriage	✓		By Stock on Consignment	✓
	- Board Rent	✓			
	- Lighting	✓			
	- Selling Exp	-		By Goods sent on Consignment - Ward	✓
	- Commission	✓			
	To Stock Reserve	✓			
	- Local			By P/L on Consignment	✓
	To P/L on Consignment	✓			
		✓			

Dr.	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Consignment to ... A/c - Sales	✓		By Consignment to ... A/c	✓
				By Bank	✓
				By B/R	✓
				By Bal c/d	✓
		✓			

In the books of Consignee

Dr.	Consignee Account				Credit
Date	Particulars	Amount £	Date	Particulars	Amount £
	To cash/Bank/BP - Advance	✓		By Cash/Bank - Sales	✓
	To cash/Bank - Expenses	✓			
	To Commission	✓			
	To cash/Bank Remittances -	✓			
	To bank Crd	— —			— —